

**ASHFORD WATER DISTRICT**  
**Pierce County, Washington**  
**January 1, 1991 Through December 31, 1993**

---

**Schedule Of Findings**

---

1. The District Should Comply With Legal Requirements Governing The Conduct Of District Business

Prior to beginning the audit, we requested the district provide us with district records of its activities for the audit period. Officials provided various records for audit, but did not provide either board meeting minutes or information related to its federally assisted long-term debt. Officials stated they would provide the missing information at a later date. A second letter was sent to the district requesting the minutes, board resolutions, including those related to the district's Farmers Home Administration (FHA) loans (see Finding 2), and any correspondence between the district and the FHA during the audit period. Officials subsequently called our office and stated they would bring in those minutes and resolutions they could find. The district indicated there had been few meetings and minutes had not been kept, there were not resolutions, and they had not kept any of the correspondence between the district and the FHA. Without the requested board minutes, resolutions, and federal assistance information, we could not determine compliance with various state legal requirements including whether:

- a. The board complied with the Open Public Meetings Act as required by Chapter 42.32 and 42.30 RCW.
- b. The board approved all expenditures as required by RCW 57.20.140.
- c. The board complied with the board election requirements of RCW 57.12.010.
- d. The board has taken appropriate rate setting action as required by RCW 57.20.020(3) (see Finding 2).
- e. The board has taken appropriate action to collect the district's delinquent accounts, which totaled \$1,830.25 at the end of December 31, 1993, \$1,127.27 of which was over 90 days past due (see Finding 5).

Without adequate records of the board's and district's activities, we could not determine the extent to which the district complied with appropriate laws and regulations.

We recommend the district act in accordance with all applicable laws, and create, maintain, and retain appropriate documentation showing compliance with such laws in the future.

2. The District Should Set Rates Sufficient To Cover Its Operating And Debt Service Requirements

The district has two revenue bond issues outstanding, both of which are owned by the Farmers Home Administration. During the audit period the district did not make all of its required principal and interest payments on these bonds when due. As of December 31, 1993, it owed \$4,957.50 on its 1982 Revenue Bonds and \$517.68 on its 1989 Revenue Bonds, for a total arrears amount of \$5,475.18. This arrearage was not made up until November 1994. As part of its bond covenants, the district agreed to establish rates sufficient to ensure it had funds available to pay the principal and interest payments on its bonds when due; this is also required by RCW 57.20.020(3).

RCW 57.20.020(3) states in part:

. . . The water district commissioners of any water district, in the event that such water revenue bonds are issued, shall provide for revenues by fixing rates and charges for the furnishing of water supply to those receiving such service . . . Such rates shall be . . . as fixed by resolution and shall produce revenues sufficient to take care of the costs of maintenance and operation, revenue bond . . . interest and principal amortization requirements and all other charges necessary for efficient and proper operation of the system.

The district's 1989 Revenue Bond states in part:

The District hereby covenants and agrees . . . to maintain and collect such rates and charges for water furnished as will provide sufficient revenue to produce the Gross Revenue required . . . to meet the debt service and coverage requirements of this bond, the outstanding 1982 Bond and any bonds hereafter issued on a parity of lien . . .

The district's rates appear insufficient to provide adequate operating funds while fully covering principal and interest payments on its outstanding bonds. The commissioner, however, indicated to us the district's rates have been raised . . . "as high as they can be" . . . .

As a result of its apparent inadequate rates, the district was out of compliance on its bond covenants. The district has not complied with the requirements of either RCW 57.20.020(3) or its bond covenants.

We recommend the district comply with the requirements of RCW 57.20.020 (3) and its bond covenants by establishing rates sufficient to provide funds for its operational and debt service needs.

3. District Commissioner Should Pay For Water Used

During our audit we examined the water rates charged to district commissioners. We found that a commissioner with two accounts was not charged for water usage. These two accounts used approximately 244,500 gallons of water during the period January 1, 1991, through December 31, 1993. Based on this estimated usage, the commissioner received water valued at \$1,783.49 from the district without paying for it.

The district is in the business of selling water to its customers, and, as defined in RCW 42.23.020 (3), such sales constitute contracts for the purposes of Chapter 42.23. RCW. Under the provisions of RCW 42.23.030, district officials may receive water from the district only under the same terms and conditions, and at the same rates, as the district's other customers. RCW 42.23.030 states in part:

No municipal officer shall be beneficially interested, directly or indirectly, in any contract which may be made by, through or under the supervision of such officer, in whole or in part . . . This section shall not apply in the following cases: (1) the furnishing of electrical, water or other utility services by a municipality engaged in the business of furnishing such services, at the same rates and on the same terms as are available to the public generally . . . .

RCW 57.08.080 states:

The commissioners shall enforce collection of the water connection charges and rates and charges for water supplied against property owners connecting with the system and/or receiving such water, such charges being deemed charges against the property served, by addition of penalties of not more than ten percent thereof in case of failure to pay the charges at times fixed by resolution. The commissioners may provide by resolution that where either water connection charges or rates and charges for water supplied are delinquent for any specified period of time, the district shall certify the delinquencies to the treasurer of the county in which the real property is located, and the charges and any penalties added thereto and interest thereon at the rate of not more than eight percent per year shall be a lien against the property upon which the service was received, subject only to the lien for general taxes.

RCW 42.20.010 Misconduct of public officer, states in part:

Every public officer who shall:

(1) ask or receive, directly or indirectly, any compensation, gratuity, or reward, or promise thereof, for omitting or deferring the performance of any official duty . . . Shall be guilty of a gross misdemeanor . . . .

RCW 42.21.030 Prohibited practices - Using position to secure special privileges or exemptions, states in part:

No public official shall use his position to secure special privileges or exemptions for himself . . . .

The commissioner indicated to us that he did not pay for district water since he provided the district with office space, and performed services without compensation.

As a result of providing a commissioner with water at no cost, the district lost an estimated \$1,783.49 in revenue over the three-year period January 1, 1991, through December 31, 1993. In addition, the receipt of district water without payment is contrary to RCW 42.23.030.

We recommend the district recover the amount owed for unbilled water usage during the three-year period January 1, 1991, through December 31, 1993, and for all subsequent months. We recommend the board ensure all district customers, including commissioners, are properly billed for their water usage in the future. We also recommend that the board negotiate and approve the value of office space and services provided by district commissioners in accordance with 42.23.030 RCW.

4. The District Should Reconcile Cash Receipts To Accounts Receivable Postings

We examined the district's procedures for recording customer payments. The district receives these moneys and later deposits them with the county treasurer. During our audit we found that the district did not reconcile its cash receipts to customers' account postings.

Reconciliation of the district's customer account postings to its county treasurer receipts for October 1992, indicated a shortage of \$150. There was no evidence of an attempt being made to determine the cause of the shortage. We identified a \$150 credit posted to an account which was not supported by an entry on the district's daily receipt lists or county treasurer receipts for the month. There was no indication if the error was identified or corrected during subsequent months.

District officials advised us that the district's records were maintained by other persons, but they would try to find out what had occurred. We have not yet received the additional information requested.

The district's failure to identify or correct the above error resulted in an account receiving \$150 credit for which no payment was received.

We recommend the district identify the reason for the unsupported credit posting and make the appropriate correction. We also recommend the district reconcile cash receipts to accounts receivable postings.

5. Commissioners Should Ensure District Accounting System Accuracy

We audited the district's procedures for write-off of delinquent accounts. Our examination found weaknesses in the procedures used to account for write-offs.

Our review of past due accounts identified two accounts with past due balances totaling \$687 which had been removed from the past due register even though no payments had been received on the accounts. We could not obtain any explanation for removal of these balances in the records provided to us for audit. Officials advised us that the system used by the district allows accounts to be activated or deactivated. Accounts which are deactivated on the system will not appear on district reports. They further indicated water to those properties had been turned off and would not be turned on until the past due balances had been paid.

The disappearance and subsequent reappearance of past due accounts on district reports, including the billing and aged receivables reports, compromises the integrity of the district's internal control procedures for billings and receivables. It also reduces assurance the records provided for audit accurately represent district activities during the audit period. We were unable to apply alternative procedures to determine the effect of the weakness on the district's financial schedules.

We recommend officials review all district water accounts for the period January 1, 1991, through December 31, 1993, and for all subsequent months, to ensure they are accurately reflected on district records.